Hindustan Unilever

24 April 2024

Growth remains subdued; premiumization focus to support earnings till consumption environment improves

RESULT UPDATE

Sector: FMCG	**Rating: HOLD**
CMP: Rs 2,259	**Target Price: Rs 2,494**

Stock Info

Sensex/Nifty	73,853/ 22,402
Bloomberg	HUVR IN
Equity shares (mn)	2350
52-wk High/Low	Rs 2,769/2,170
Face value	Rs 1
M-Cap	Rs 5,308bn/US$ 64bn
3-m Avg value	US$ 54mn

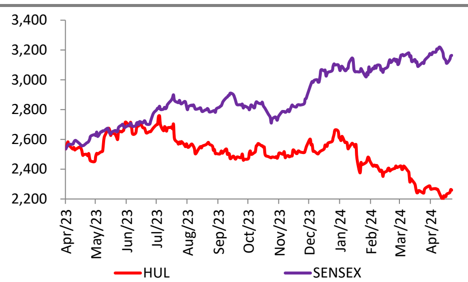
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	618,960	661,685	721,140
PAT	102,800	113,253	124,705
EPS (Rs)	43.7	48.2	53.1
PE (x)	51.7	46.9	42.6
EV/EBITDA (x)	33.6	31.3	28.5
P/BV (x)	9.5	9.3	9.1
EV/Sales	8.0	7.5	6.8
RoE (%)	20.3	21.9	23.5
RoCE (%)	26.3	27.2	29.2
NWC (days)	-20	-11	-10
Net gearing (x)	(0.1)	(0.1)	(0.1)

Shareholding Pattern (%)

	Mar24	Dec23	Sep23
Promoter	61.9	61.9	61.9
–Pledged	-	-	-
FII	12.7	13.7	13.9
DII	13.2	12.3	11.9
Others	12.2	12.1	12.3

Stock Performance (1-year)



Himanshu Nayyar
himanshunayyar@systematixgroup.in
+91 22 6704 8079

Chetan Mahadik
chetanmahadik@systematixgroup.in
+91 22 6704 8091

Hindustan Unilever (HUVR) delivered soft earnings, in-line with our muted expectations with weak topline performance and decline in earnings despite sharp GM improvement. While volumes were up 2% YoY, negative pricing led to a revenue decline of 0.2% YoY while EBITDA/ Adj. PAT declined 1%/2% YoY respectively. Home care grew volumes in mid-single digit, while BPC and F&R saw flattish volumes. A superior mix and continued cool-off in material inflation (esp. crude and palm-related) led to sharp gross margin expansion of 316bps to 51.9% albeit EBITDA margin declined 19 bps to 23.1% primarily on account of 60 bps impact from termination of GSK consignment selling arrangement, 200bps increase in A&P spends and 120bps increase in employee costs/royalty.

We expect gross margin recovery to continue, with commodity inflation continuing to moderate and premiumization/mix improvement playing out. But EBITDA margin improvement will be tempered by the 80bps phased increase in royalty, termination of GSK business and a continued uptick in ad spends. The impact of recent pricing cuts have started to reflect slowly in the numbers which should drive a gradual recovery in volume growth over next few quarters. But negative pricing should keep revenue growth muted over the next couple of quarters. Given the sharp underperformance and initial signs of a volume recovery in few categories post pricing and marketing actions, we do not expect too much downside despite this weak growth delivery in both absolute and relative terms. Pricing should remain in the negative zone in near-term, translating to a soft revenue growth in coming quarters. We expect a gradual rural recovery led by lower inflation, low base and better farm income expectations while urban demand is expected to remain resilient especially in alternate channels. We expect volume growth to be the sole driver for revenue growth in near-term. Gross margin improvement is expected to be invested on higher A&P and innovation spends.

Valuation and View: We cut our FY25/26 EPS estimates by 5%/6% to build in a slower recovery in both topline and margins and now build a revenue/EBITDA/PAT growth of 8%/9%/10%, respectively, over FY24-26E. But given the recent correction, we maintain our HOLD rating with a target price of Rs 2,494 (Rs 2,825 earlier) based on 47x FY26E (50x earlier) earnings, a 15% discount to its five-year average valuation multiple. While we like the potential for premiumization and marketing/innovation focus of the company, weak demand trends, high competitive intensity and absence of pricing lever remain near-term headwinds for the stock, which can drive continued underperformance for a couple more quarters. Higher royalty, A&P and GSK OTC business going away would limit margin improvement as well. Key monitorables would be the timing of industry demand recovery, commodity price trends and competitor actions.

Management commentary: Management expects a gradual rural demand recovery, price growth is expected to be marginally negative (low single digit) moving ahead (in case commodity prices remain stable) while lower commodity prices are expected to keep competitive intensity high. Management expects to start taking marginal price hikes in 2HFY25. With competitive intensity rising, the company intends to maintain higher A&P spends, which will moderate the EBITDA flow-through of expected gross margin expansion. Moreover, operating margins are expected to witness a 50-60 bps impact due to the termination of GSK consignment selling arrangement in coming four quarters. Looking ahead, laundry category still retains strong premiumization and share gain potential while BPC segment should also recover with a pick-up in disposable income levels and company efforts on premiumization. Foods and HFD category, however, is also expected to witness a volume recovery with inflation cooling off in areas like tea and dairy and company's premiumization efforts.

Investors are advised to refer disclosures made at the end of the research report.

4QFY24 Result highlights

- Revenue/EBITDA/Adj.PAT growth of -0.2%/-1%/-2% YoY respectively led by 2% volume growth, 2% negative pricing and soft growth across categories given the high base as the company gained significant share last year.
- Overall revenue decline of 0.2% YoY was a result of 1.4% growth in home care, 2.7% decline in BPC and 3.1% growth in foods.
- Overall gross margin grew 316bps to 51.9% driven by softening of RM inflation; EBITDA margin declined 19 bps to 23.1% with rise (+201bps) in A&P spends, higher other expenses (+71bps) and employee costs (+62bps).
- EBIT margin grew 19bps for home care, declined 57bps for BPC while margin for foods grew 100bps.

Management presentation highlights

- **Margins** – Softening of RM inflation led to 223bps decline in COGS, coupled with price cuts in certain categories. There was a 201bps increase in A&P spends, 71bps rise in other expenses, and growth of 62 bps in expenses.
- **Segment performance** - Home care grew 1.4%, BPC fell 2.7% and foods grew 3.1%; Margins in the home care segment stood at 18.9% (+19bps YoY), personal care stood at 25.5% (-57bps YoY) and Foods & Refreshments was 18.9% (+100bps YoY).
- **Home care** – Segment witnessed 1.4% revenue growth and mid-single digit volume growth. Fabric Wash and Household Care grew volumes in mid-single digit driven by strong performance in premium portfolio. The category continued to witness YoY price decline on account of actions taken during the year.
- **BPC** – Business delivered 2.7% sales decline with flat volumes. Beauty & Personal Care continued to witness premium portfolio growing ahead of the rest. Hair care delivered volume driven high-single digit growth led by outperformance in Dove and Tresemme. Skin care and colour cosmetics grew in low-single digit. Premium skin care continued its strong double-digit growth trajectory led by innovations in new demand spaces and formats. Skin cleansing declined due to impact of price cuts coupled with drop in volumes in the mass and popular segments while bodywash continued to do well. Oral care saw a double-digit broad based growth driven by pricing. A range of innovations under Lakme cosmetics, sun-care products under Glow and Lovely, Ponds and Lakme skin, and sensitive skin cleansing range by Dove were launched in the quarter
- **Foods** – F&R revenue grew 3.1%, volumes being flattish. Functional Nutritional Drinks (Horlicks & Boost) delivered high-single digit growth driven by Plus range. Tea continued to strengthen value and volume market leadership. Category continued to witness consumers downgrading to loose tea. Coffee delivered double digit growth driven by pricing. Foods grew in mid-single digit led by strong performance in Soups and Food solutions. Mayonnaise and Peanut Butter continue to gain consumer traction. Ice Cream grew in double digit led by volumes. An exciting range of innovations including Cadbury crackle feast, American nuts and Mango Duet were launched ahead of the upcoming ice-cream season
- **Outlook –** In near term management expects gradual recovery, company is optimistic of mid-term impact of better monsoons and improving macro-

economic indicators, price growth is expected to be in low-single digit negative in in case commodity prices remain stable.

Q&A takeaways

- **Demand scenario** – Broadly similar to demand trends during 3Q. Premium portfolio continued to see healthy traction especially in urban markets (60% of business).
- **Market share gains** – Company held on to the market share share gains in 2021 and 2022. It lost some share in 2023. However, the company is confident of regaining the lost share in 2nd half of 2024.
- **Price hikes –** Company plans to take calculated price hike in 2HFY25 in case commodity prices are stable. Company expects to see low single digit price increase in 2HFY25.
- **Liquid wash –** Company is seeing a secular macro trend of consumers moving towards liquids across various categories. Liquids under home care comprising fabric conditioners, fabric wash and dishwash generate a business of Rs 35 bn. Company has been the pioneer in fabric conditioner liquids, body wash, fabric wash liquids and dishwash liquids. Liquid saliency in dish wash for VIM stands at 25%. There is high competitive intensity in fabric wash liquids now. In terms of fabric wash, liquid saliency stands around 20% with a 20% growth rate. Body wash liquids are growing at a rate of 50-60%. However, currently the penetration of liquid body wash is as low as 2% and there is huge opportunity for growth.
- **Laundry** – Powders continue to grow in volume terms. Company has corrected prices of its bars. Company expects volume growth to continue in laundry with bars gaining growth and powder sustaining its growth momentum. Company continues its efforts to premiumize the laundry category.
- **Functional nutrition** – Business grew in high single digit driven by healthy mix of pricing and volume growth. Plus premium range (science-backed portfolio) witnessed acceleration and is growth in double digits (Rs 6 bn business). Company believes the sugar content to be limited in its products, enough to make them palatable. Trajectory of building penetration has yielded results for the company however the category still remains underpenetrated in India (20-30% penetration currently). Company witnessed market share gains in value and volume in functional nutrition category. Company is seeing healthy growth in GT and MT. Steady milk prices have further benefitted the category.
- **Beauty** – Premium part of the beauty portfolio grew in double digits. The mass end of the portfolio had witnessed a decline. In Ecommerce certain beauty products (sun care, facial cleansing, weather resilient body lotions) are seeing a 50% growth. Company will bring in brands to capture new demand spaces. Company is open for inorganic opportunities in the beauty category.
- **Soaps** – Witnessed inferior performance. The volume decline was due to prices, business was lapping a price decrease base. Mass portfolio witnessed dip in Q4FY24. With new price stock in the market company is witnessing early signs of growth and expects growth to pick in next 1-2 quarters. As the commodity prices had declined company improved the formulation of its products. Company is bring in premium products led by innovation, product quality and formats.
- **Ice cream business** – Global parent will separate the business in 2nd half of 2025. Still to take a call on how to proceed with the India business.

- **Distributor margins –** Attrition levels and ROI of distributors have improved post increasing distributor margins which is in line with company expectations.

- **Distribution channels saliency** – 70% from General trade, 20% from Modern trade, 7% from ecommerce and 3% from quick commerce, company gaining share in quick commerce and ecommerce.

- **Margin outlook** – Company expects to maintain operating margin at current levels in short term. In medium to long term company expects to see modest margin improvement. Company will continue to see gross margin improvement. The gains from gross margin will be ploughed back in A&P spends. Margin impact of 50-60 bps due to GSK business will continue for next 4 quarters.

Exhibit 1: Quarterly performance

YE March (Rs mn)	4QFY24	4QFY23	3QFY24	YoY (%)	QoQ (%)
Net Revenues	**148,570**	**148,930**	**151,880**	**(0.2)**	**(2.2)**
Cost of materials	42,870	46,290	44,230	(7.4)	(3.1)
(% of sales)	28.9	31.1	29.1		
Purchase of stock in trade	28,640	30,100	29,440	(4.9)	(2.7)
(% of sales)	19.3	20.2	19.4		
Gross Profit	**77,060**	**72,540**	**78,210**	**6.2**	**(1.5)**
Gross margin (%)	**51.9%**	**48.7%**	**51.5%**		
Employee cost	7,740	6,830	6,490	13.3	19.3
(% of sales)	5.2	4.6	4.3		
Selling & admin	15,860	12,900	15,930	22.9	(0.4)
(% of sales)	10.7	8.7	10.5		
Others	19,110	18,100	20,390	5.6	(6.3)
(% of sales)	12.9	12.2	13.4		
EBITDA	**34,350**	**34,710**	**35,400**	**(1.0)**	**(3.0)**
EBITDA margin (%)	**23.1**	**23.3**	**23.3**		
Other income	2,200	1,600	2,850	37.5	(22.8)
PBIDT	**36,550**	**36,310**	**38,250**	**0.7**	**(4.4)**
Depreciation	2,890	2,620	2,820	10.3	2.5
Finance cost	1,020	240	810	325.0	25.9
PBT	**32,640**	**33,450**	**34,620**	**(2.4)**	**(5.7)**
Tax	8,410	8,730	9,130	(3.7)	(7.9)
ETR (%)	25.8	26.1	26.4		
Adjusted PAT	**24,230**	**24,720**	**25,490**	**(2.0)**	**(4.9)**
PATAMI margin	16.3	16.6	16.8		
Exceptional item	(170)	800	(300)		
Reported PAT	**24,060**	**25,520**	**25,190**	**(5.7)**	**(4.5)**
No. of shares (mn)	2,350.0	2,350.0	2,350.0		
Adj EPS (Rs)	**10.3**	**10.5**	**10.8**		

Source: Company, Systematix Institutional Research

Exhibit 2: Segmental performance

YE March (Rs mn)	4QFY24	4QFY23	3QFY24	YoY (%)	QoQ (%)
Segement revenue					
Home care	57,150	56,380	54,480	1.4%	4.9%
Personal care	50,500	51,880	57,050	-2.7%	-11.5%
Foods & Refreshments	39,110	37,940	37,330	3.1%	4.8%
Others	1,810	2,730	3,020	-33.7%	-40.1%
Net Sales	148,570	148,930	151,880	-0.2%	-2.2%
Segment EBIT					
Home care	10,810	10,560	9,660	2.4%	11.9%
Personal care	12,880	13,530	14,610	-4.8%	-11.8%
Foods & Refreshments	7,390	6,790	7,110	8.8%	3.9%
Others	380	1,210	1,200	-68.6%	-68.3%
Total EBIT	31,460	32,090	32,580	-2.0%	-3.4%

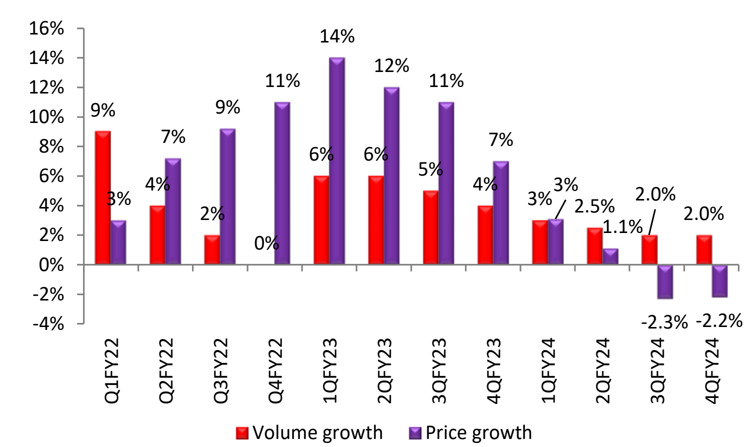
Source: Company, Systematix Institutional Research

Exhibit 3: Change in Estimates

Rs mn	Old Estimates		Revised Estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	674,504	735,426	661,685	721,140	-2%	-2%
EBITDA	162,555	180,915	157,481	173,074	-3%	-4%
EBITDA Margin	24.1%	24.6%	23.8%	24.0%		
Adj. PAT	119,193	132,763	113,253	124,705	-5%	-6%

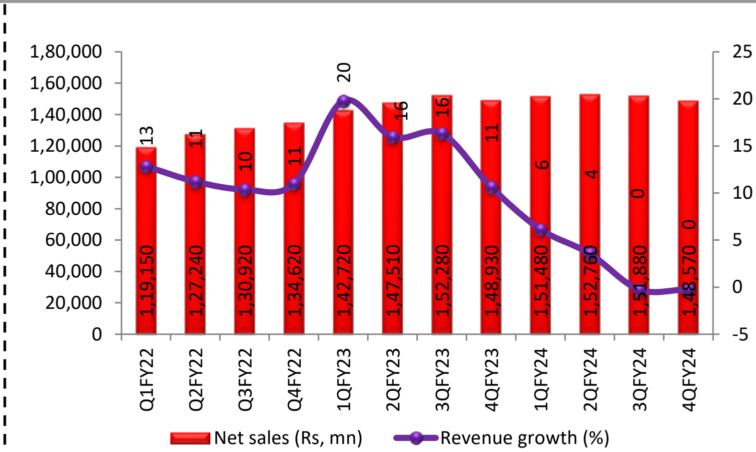
Source: Company, Systematix Institutional Research

Exhibit 4: Volume growth at 2%, pricing declined 2%



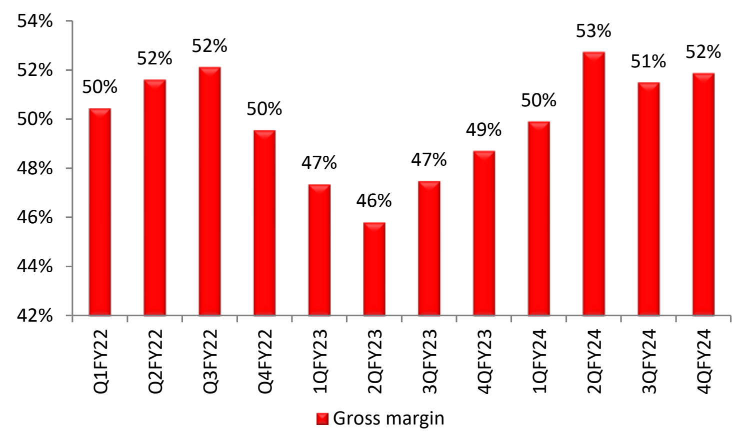
Source: Company, Systematix Institutional Research

Exhibit 5: Revenue declined 0.2% YoY and 2.2% QoQ



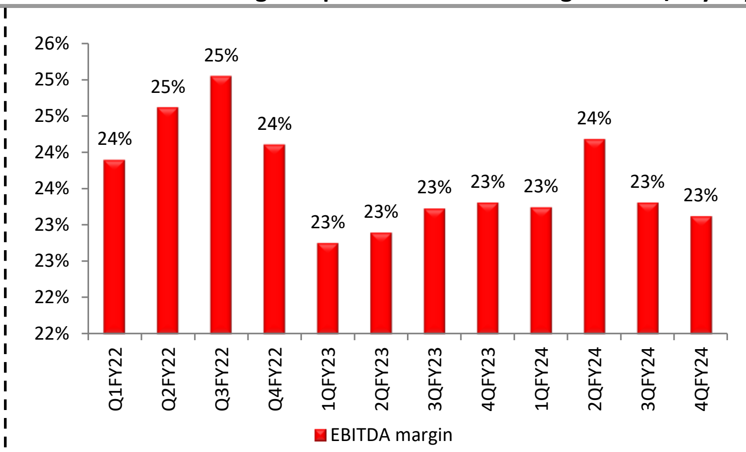
Source: Company, Systematix Institutional Research

Exhibit 6: Gross margin expanded 316 bps YoY



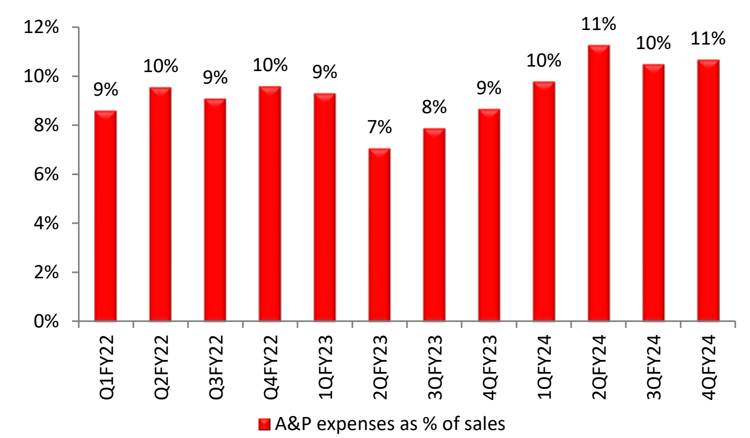
Source: Company, Systematix Institutional Research

Exhibit 7: EBITDA margin impact limited due to higher A&P/royalty



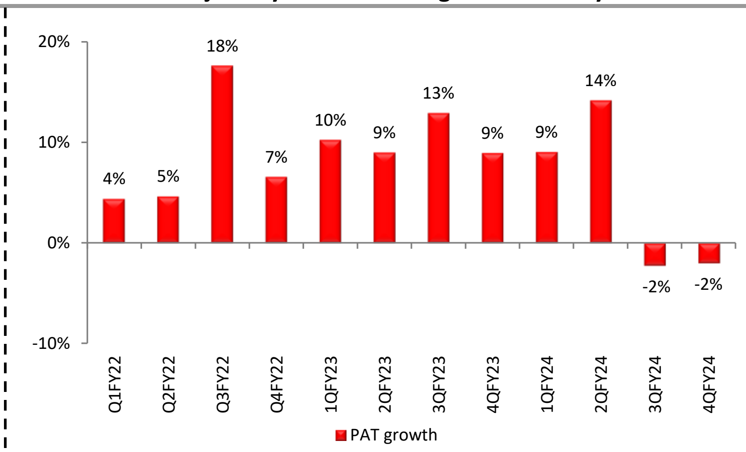
Source: Company, Systematix Institutional Research

Exhibit 8: A&P spends have picked up year on year



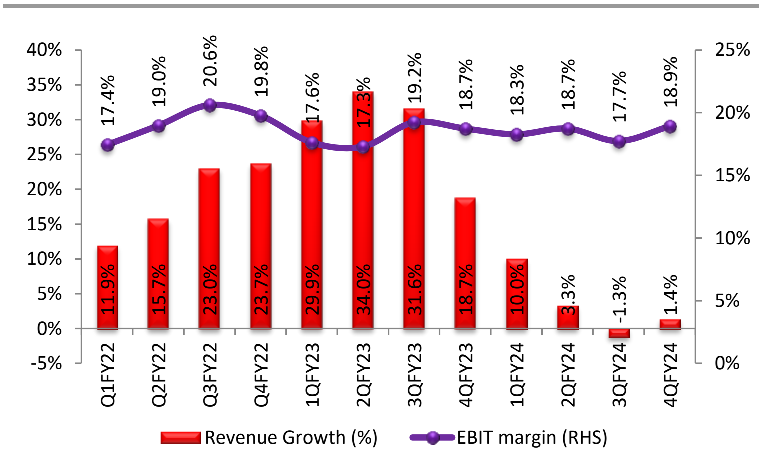
Source: Company, Systematix Institutional Research

Exhibit 9: PAT trajectory remains in negative territory



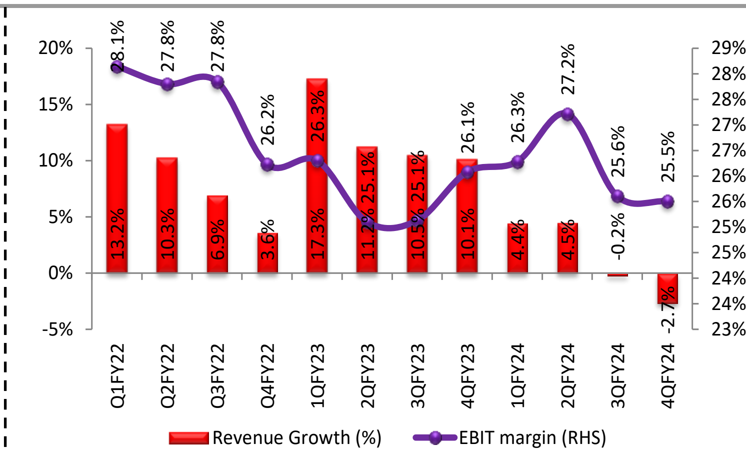
Source: Company, Systematix Institutional Research

Exhibit 10: Home care sees 1.4% growth, with volume uptick



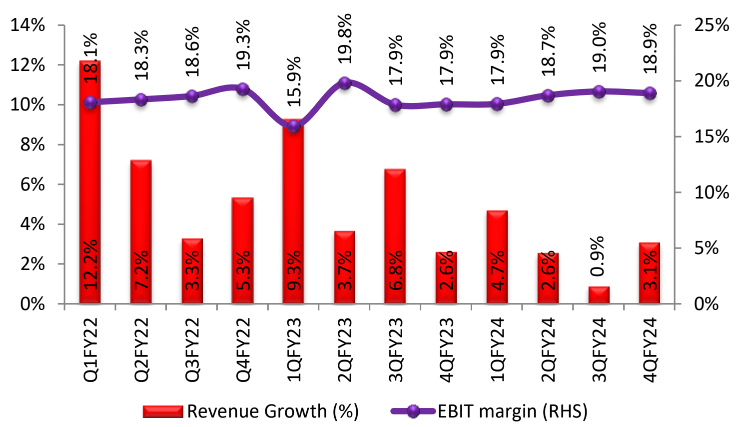
Source: Company, Systematix Institutional Research

Exhibit 11: BPC registered 1.2% decline, volumes remained flat



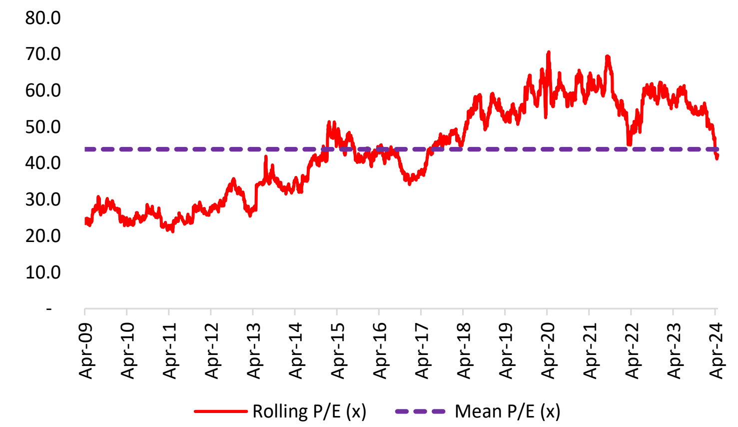
Source: Company, Systematix Institutional Research

Exhibit 12: F&R growth at 3.1%, flattish volumes



Source: Company, Systematix Institutional Research

Exhibit 13: Currently trades at 42.3x 1-yr fwd P/E



Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	**5,24,460**	**6,05,800**	**6,18,960**	**6,61,685**	**7,21,140**
RM Cost	1,64,240	2,01,370	1,92,460	2,05,122	2,23,553
Purchase of trad. Goods	93,110	1,15,790	1,05,140	1,07,855	1,17,546
Gross Profits	**2,67,110**	**2,88,640**	**3,21,360**	**3,48,708**	**3,80,041**
Employee costs	25,450	28,540	30,090	31,099	33,894
Selling & Admin costs	1,13,090	1,18,610	1,44,640	1,60,128	1,73,074
Total Expenses	**3,95,890**	**4,64,310**	**4,72,330**	**5,04,204**	**5,48,066**
EBITDA	**1,28,570**	**1,41,490**	**1,46,630**	**1,57,481**	**1,73,074**
Depreciation	10,910	11,370	12,160	13,381	14,399
Other income	2,580	5,120	8,110	6,656	7,322
EBIT	**1,20,240**	**1,35,240**	**1,42,580**	**1,50,756**	**1,65,996**
cost	1,060	1,140	3,340	3,674	4,041
PBT	**1,19,180**	**1,34,100**	**1,39,240**	**1,47,082**	**1,61,954**
Taxes	29,870	32,010	36,440	33,829	37,250
Adj. PAT	**89,310**	**1,02,090**	**1,02,800**	**1,13,253**	**1,24,705**
Extraordinaries/Excecptional	440	640	(60)	-	-
Reported PAT	**88,870**	**1,01,450**	**1,02,860**	**1,13,253**	**1,24,705**
No. of shares (mn)	2,350	2,350	2,350	2,350	2,350
Adj. EPS	**38.0**	**43.4**	**43.7**	**48.2**	**53.1**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves and surplus	4,88,260	5,00,690	5,09,830	5,21,154	5,33,624
Net worth	**4,90,610**	**5,03,040**	**5,12,180**	**5,23,504**	**5,35,974**
Minority	260.0	2,180.0	2,050.0	2,050.0	2,050.0
Total Debt	-	-	-	-	-
Other LT liabilities	26,780	30,300	34,000	36,380	38,927
Total sources	**5,17,650**	**5,35,520**	**5,48,230**	**5,61,934**	**5,76,951**
Net Block	61,690	69,490	80,310	90,310	1,00,310
Intangible assets	4,53,040	4,57,290	4,57,130	4,53,270	4,53,271
Net deferred tax	(63,030)	(63,330)	(96,150)	(96,150)	(96,150)
Other assets	10,380	11,030	11,300	12,091	12,937
CWIP	13,130	11,320	10,250	10,250	10,250
Investments	35,210	28,130	45,600	45,600	45,600
Cash	**38,460**	**46,780**	**75,590**	**68,892**	**73,475**
Inventories	40,960	42,510	40,220	48,947	55,320
Debtors	22,360	30,790	29,970	34,444	39,515
Other current assets	18,250	21,790	21,880	23,005	26,591
Current Assets	**81,570**	**95,090**	**92,070**	**1,06,395**	**1,21,426**
Creditors	90,680	95,740	1,04,860	1,03,332	1,14,592
Other CL	22,120	24,540	23,010	25,392	29,577
Current Liabilities	**1,12,800**	**1,20,280**	**1,27,870**	**1,28,724**	**1,44,169**
Net Working Capital	**(31,230)**	**(25,190)**	**(35,800)**	**(22,328)**	**(22,743)**
Total Uses	**5,17,650**	**5,35,520**	**5,48,230**	**5,61,934**	**5,76,950**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	**1,18,740**	**1,33,460**	**1,39,260**	**1,47,082**	**1,61,954**
Add: Depreciation	11,060	11,520	12,160	13,381	14,399
Add:	1,060	1,140	3,170	3,674	4,041
Less: taxes paid	(27,810)	(31,400)	(3,810)	(33,829)	(37,250)
Add: other adjustments	(2,570)	(5,230)	(4,820)	-	-
Less: WC changes	(10,000)	(9,580)	8,730	(13,472)	415
Total OCF	**90,480**	**99,910**	**1,54,690**	**1,16,836**	**1,43,561**
OCF w/o WC changes	1,00,480	1,09,490	1,45,960	1,30,308	1,43,146
Capital expenditure	(10,940)	(13,870)	(14,610)	(14,000)	(14,000)
Change in investments	(7,960)	(3,680)	(42,910)	-	-
/Dividend reced.	1,620	2,610	4,280	-	-
Total ICF	**(17,280)**	**(14,940)**	**(53,240)**	**(14,000)**	**(14,000)**
Free Cash Flows	79,540	86,040	1,40,080	1,02,836	1,29,561
Share issuances	-	-	-	-	-
Change in borrowings	-	-	-	-	-
Dividends	(75,260)	(84,740)	(94,160)	(1,01,928)	(1,12,234)
payment	(820)	(880)	(1,100)	(3,674)	(4,041)
Others	(4,070)	(3,910)	(5,080)	(61,649)	(61,649)
Total FCF	**(80,150)**	**(89,530)**	**(1,00,340)**	**(1,67,251)**	**(1,77,925)**
Net change in cash	**(6,950)**	**(4,560)**	**1,110**	**(64,415)**	**(48,364)**
Opening cash & CE	44,710	38,460	46,780	75,590	68,892
Closing cash & CE	38,460	46,780	75,590	68,892	73,475

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Yoy growth in Revenue	11.5	15.5	2.2	6.9	9.0
Yoy growth in EBITDA	10.6	10.0	3.6	7.4	9.9
Yoy growth in Net income	8.4	14.3	0.7	10.2	10.1
Effective tax rate	23.8	22.4	25.3	23.0	23.0
EBITDA margin	24.5	23.4	23.7	23.8	24.0
PAT margin	17.0	16.9	16.6	17.1	17.3
ROACE (pre-tax)	23.6	25.7	26.3	27.2	29.2
ROAE	18.5	20.5	20.3	21.9	23.5
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Inventory days	29	26	24	27	28
Debtors days	16	19	18	19	20
Payable days	63	58	62	57	58
NWC days	(19)	(14)	(20)	(11)	(10)
Per share numbers (Rs)					
Reported earnings	38.0	43.4	43.7	48.2	53.1
Dividend	34.0	39.0	39.4	43.4	47.8
Book Value	227.1	232.9	237.1	242.4	248.1
Valuations (x)					
Price to diluted earnings	59.4	52.0	51.7	46.9	42.6
EV / EBITDA	38.6	35.0	33.6	31.3	28.5
Price to sales	9.5	8.3	8.1	7.6	6.9

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	**Managing Director**	**+91-22-6704 8001**	**nikhil@systematixgroup.in**
Equity Research			
Analysts	**Industry Sectors**	**Desk-Phone**	**E-mail**
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Santosh Yellapu	Capital Goods	+91-22-6704 8094	santoshyellapu@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krisha Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in
Equity Sales & Trading			
Name		**Desk-Phone**	**E-mail**
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in
Corporate Access			
Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in
Production			
Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in
Operations			
Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in

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Systematix Shares and Stocks (India) Limited:
Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in
Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in
Details of Email id grievance redressal cell : grievance@systematixgroup.in
Details of Registration : CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 12034600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | AMFI : ARN - 64917